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# The relevance of the periphery for economic policy

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This special issue of the Fraser Economic Commentary presents a diverse selection of papers on peripheral economies. These are a sample of papers presented at an international conference of the Regional Studies Association (RSA) research network on Peripherality, Marginality and Border Issues in Northern Europe in September 2012. The conference was hosted by the University Centre of the Westfjords in Ísafjörður, Iceland. This followed previous successful standalone events organized by the network in Norway and Scotland, as well as various special sessions at other RSA events. The papers are diverse in terms of the geographical areas they focus on, both within the UK and its neighbours in the Nordic countries. The methods are diverse, as are the disciplinary backgrounds of the participants.

Arguably studying the development of peripheral economies and communities has not been at the leading edge of intellectual fashion. The focus has been on developing the centres and the narrative has emphasised an urgency to stimulate their competitiveness in a global bidding war for footloose businesses and high-skill workers. The ascent of New Economic Geography (NEG) has exerted considerable gravity on policy discourse. The standard NEG model (e.g. Fujita, Krugman & Venables, 1999), ascribes local economic development to two forces: agglomeration economies and congestion. The first acts as a centripetal force, pulling towards fewer and larger centres, whereas the latter acts as a centrifugal force pushing towards more distributed economic activity. As the founding father of NEG intended (Krugman, 2010) the simplicity of the model, with its derivation from few axioms, has attracted the interest of mainstream economics to the role of space in shaping economic development. Indeed, it has triggered a wave of publications. See for example Schmutzler (2003) and Candau (2008) for an overview. Furthermore, it has influenced policy makers as for example manifested in the 2009 World Development Report "Reshaping Economic Geography (World Bank, 2009).

The simplicity and clarity of the NEG model has, however, had an unfortunate unintended consequence: a tendency to reduce regional policy discourse to the sole confines of NEG. This is of course by no means universal, but there are certainly examples of influential actors in the policy discourse making radical policy prescriptions, at least implicitly, on the premise that NEG is an accurate and complete description of reality. This is not the case as critics of NEG are quick to point out (Ganetsen & Martin, 2010) nor the intentions of the school's founders (Krugman, 2011). However, as any observer of the history of economic thought will know, there is always the risk that a neat piece of theory will be taken overly literally. It should be self-evident that analytical clarity is not obtained for free, but comes at a cost. The more abstract the model, the more simplified its take on reality and hence greater care needs to be taken when distilling policy prescriptions based on such mechanisms.

NEG does not assign an active role to the periphery. Rather it is implicitly treated as a residual: What remains once the centres have been shaped by the tug-o-war between agglomeration and congestion. And why should it? The main purpose of the theory is to explain the formation of and pattern of urban centres. When are they large and when are they small? The economics of the periphery needs its own models, where the trade-off between nuance and analytical clarity is determined by the needs of policy analysis in the periphery.

Policy making would be easier if reality was simpler. Hence the temptation to believe NEG to the letter is understandable. However, it is not sensible. The periphery should not be a passive respondent to policy making formulated around global cities. The interdependencies are too large to ignore. Indeed, there are signs the intellectual pendulum is swinging back. A tentative sign is the recent statement by the Chancellor of the Exchequer to embrace policies for a regionally driven growth strategy. Furthermore, leading regional scientists have presented evidence to the effect that the potential for economic growth in Europe's leading cities is reaching saturation and competitiveness is increasing faster in smaller cities (Boersma & van Dijk,

2008). Indeed, this is quite in line with the prescriptions of NEG, but somehow the positive story of agglomeration economies has much more appeal than the disappointing effects of congestion.

Against this backdrop the aim of this issue is to showcase some of the emerging thinking on peripheral economies in the British Isles and the Nordic Countries. In the first section we shall discuss the concept of peripherality and the diverse and decentralised 'school of thought' that is emerging from participants in the PEMABO network. In our first paper, the instigators of the PEMABO Network, Professor Mike Danson of Heriot-Watt University in Edinburgh and Peter de Souza of Högskolen i Hedmark, in Norway, discuss the PEMABO agenda, drawing on lessons from the Innovative North. The second paper in this section, by Dr Jan Stanley of Arizona State University, USA, invokes the methods of creative non-fiction writing to capture impression of the mosaic, which emerges where people of different nationalities and professional backgrounds unite to share experience of development in the periphery. The third paper in this section is contributed by Dr Gylfi Magnusson, of the University of Iceland and former minister for business affairs in the caretaker government formed in the aftermath of Iceland's financial meltdown in 2009. Gylfi illustrate how industrialisation and urbanisation shaped the geography of Iceland's population distribution in the 20th century.

The second section looks at the potential of new energy sources in the periphery. Dr Kristinn Hermannsson and Professor Kim Swales of the University of Strathclyde in Glasgow, present two papers analysing the production of marine bioenergy from harvested seaweed in the Western Isles. In the first paper they examine the tension between economic development and emissions reduction. Producing biogas from seaweed can reduce greenhouse gas emissions by displacing fossil fuels. However, the process stimulates economic activity, which triggers new 'downstream' emissions. The two countervailing effects are estimated and contrasted using an extended Input-Output model of the Western Isles. Their second paper compares and contrasts the estimated benefits of the project using cost benefit analysis and cost per job. The analysis suggests the project is not feasible from an environmental point of view in isolation, but could represent a cost-effective regional policy with additional benefits from reduced emissions.

The third section explores the role of social factors in influencing the out-migration of young people from the periphery, drawing on anthropological approaches. Maria Vallström of Uppsala University in Sweden, examines the development of single industry communities in the periphery. Lotta Svenson, also of Uppsala University, examines the out migration of young people from small communities in Sweden.

Finally, in the fourth section, Dr Stuart McIntyre of the University of Strathclyde, examines how economics affects social outcomes. In his paper he analyses the interrelations between personal indebtedness and crime in the North East of England.

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